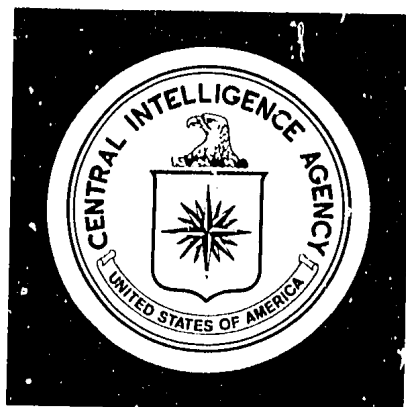


USAIN review completed
CIA/UCR/IM 72-134 ECON SITUATION IN S. VIETNAM
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DIRECTORATE OF
INTELLIGENCE

Intelligence Memorandum

The Economic Situation in South Vietnam

USAID review completed

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August 1972

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CENTRAL INTELLIGENCE AGENCY
Directorate of Intelligence
August 1972

INTELLIGENCE MEMORANDUM

THE ECONOMIC SITUATION IN SOUTH VIETNAM

Summary

1. The Saigon cost of living index has been increasing at the rate of about 1% a week since the end of June, and further substantial increases seem likely. The recent upsurge has resulted mainly from the seasonal decline in the supply of fish and rice, but during the next few months there will be increasing pressure on prices as the result of increased government spending, primarily for refugee and other war-related costs.

2. As the domestic price level has risen, the government has continued to raise the price of foreign exchange, announcing small devaluations of the piaster in both July and August. These successive devaluations did little to disturb the currency black market in Saigon, where activity has been greatly diminished since the major economic reforms in November 1971.

3. Vietnam's new economic planning body, the Ministry of National Planning and Development (MNPDP), has made impressive progress since its establishment in June 1971. It has nearly completed a four-year development plan and is performing a much-needed service in coordinating foreign aid from countries other than the United States.

4. Charts on foreign exchange reserves, money supply and prices, gold and currency prices, and the government budget (Figures 1-5) follow the text.

Note: This memorandum was prepared by the Office of Economic Research.

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Discussion

Renewed Inflation

5. Inflation, which had almost disappeared with the collapse of consumer demand in the first few months of the enemy offensive, is now causing serious concern. Since the end of June, retail prices in Saigon have risen about 1% a week and are up 16% for the year to date (21 August). The rate of inflation already is greater than in 1971 (14%), and further substantial price increases seem likely.

6. Several factors are responsible for the recent upsurge, including periodic enemy disruptions in the shipment of foodstuffs from the Delta, the sharply higher taxes on petroleum products decreed on 19 July, and - perhaps - some revival of consumer demand. Such revival of demand as has occurred has been minimal, however, and the business recession that began in April has not ended. The greatest single reason for the rising price level apparently is a decline in the supply of fish and rice. The reduced supply of fish is a seasonal occurrence due to the onset of the monsoons. Part of the recent slump in rice deliveries from the Delta also can be attributed to seasonal factors, but the decline has been much greater than usual - July deliveries were 50% below the June level. At this stage it is not clear whether production was lower than estimated or whether farmers and merchants are holding stocks off the market. In any case, rice prices rose 11%-14% from the end of June to mid-August.

7. To offset the slowdown in Delta deliveries, the government has begun to sell imported rice from its stockpiles. The trick, however, is to sell it at a price high enough to encourage marketing of whatever rice there still may be available in the Delta without raising the whole price structure even further. Thus the government has set prices of imported rice just above domestic rice prices and is selling imported rice directly to the public to avoid speculative hoarding by wholesalers. The hope is that the price for imported rice will fix a ceiling for all rice prices that can be maintained until the harvest of the new crop begins in the fall.

8. The current rice situation is reminiscent of supply and marketing problems that have occurred several times in the past few years. Despite initial expectations in 1971-72 that South Vietnam would be near self-sufficiency, large quantities of imports have been needed on an emergency basis. Much of the uncertainty surrounding the question of national rice availability results from inadequate information on production and farm stocks in the Delta. As in the past, it is unclear whether Delta farmers are deliberately holding rice off the market or whether farm stocks

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actually are low. Production and/or stock losses due to the offensive, however, have been minimal and thus almost certainly are not a factor in the decline in Delta deliveries.

9. Additional pressure on prices will soon develop from increased deficit spending related to the offensive. The cabinet already has approved a 14% increase in the original 1972 budget (see Figure 5) to cover the increased costs of military and refugee relief efforts. The supplemental budget of 46 billion piasters (\$106 million converted at the current exchange rate of 435 piasters per dollar) also includes the cost of an average 15% pay increase for civilian and military government employees scheduled for 1 September.⁽¹⁾ The budget as yet includes very little money for repairing roads, bridges, buildings, and the like. Estimates of reconstruction costs are still tentative, but it appears that the cost of replacing housing and other facilities in the cities of Quang Tri and An Loc as well as repairing damage to roads and bridges throughout the country will come to well over \$50 million.

10. To help meet these increased expenditures, the government has raised taxes on luxury goods and services (22 May), petroleum products (19 July), and a few other imported products (28 July).⁽²⁾ In addition, the United States is providing a \$15 million grant to cover refugee costs through the end of this year. Further tax measures are planned, including revised income and property tax schedules and a national sales tax, but these probably will not take effect until early next year. Moreover, the continuing lull in manufacturing and import activity will reduce the receipts anticipated this year from business, income, and import taxes. Thus the budget deficit - and the need to print new money - could be even greater than presently estimated. The greatest pressure on prices is likely to come toward the end of 1972 after expenditures pick up and before business tax collections revive and new taxes are enacted.

Exchange Rates - Legal and Black Market

11. In line with the policy of devaluing the piaster as the domestic price level rises, exchange rates were depreciated on 29 July and again on 22 August. The official rate rose from 425 to 435 piasters per dollar, while the special rate for imports financed through the US Commercial Import Program moved from 290 to 300 piasters per dollar. Only the rate for exports remained unchanged - at 500 piasters per dollar.

1. This increase will not raise real wages of government employees because prices have risen more than 15% since the last pay increase on 1 November 1971.
2. The higher tariffs were included in a decree that confirmed the tariff schedule in effect since last November but never ratified by the legislature.

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12. The price of dollars on the Saigon black market has varied little from the official exchange rate. The major economic reforms of November 1971, which abolished most import licensing and generally lowered tariff rates, virtually eliminated smuggling, one of the major sources of demand for black market dollars. At the same time the more realistic exchange rate in effect for American personnel since last fall has eliminated much of the supply of dollars to the black market. With little activity on the black market the piaster devaluations have caused little stir. On 21 August, just before the latest devaluation, the black market price of dollars was 425 piasters per dollar, 5 piasters below the official rate at the time. The price of gold, for which demand also reportedly is low, has generally followed the upward trend in the world market price of gold during recent weeks. On 21 August gold was selling at about 26,500 piasters per troy ounce, or \$62 converted at the rate of 430 piasters per dollar.

Economic Planning

13. Vietnam's first major attempt at national economic planning apparently is off to a good start. In little more than a year of existence, the Ministry of National Planning and Development (MNPDP) has nearly completed a four-year plan (1972-75) for public sector development. Before June 1971 there was no agency within the Vietnamese government to coordinate the allocation of resources. The national budget, one instrument that might have been used for more extensive planning, only projects current expenditures one year at a time. Since early this year, however, the MNPDP, at the direction of President Thieu, has been drawing up a four-year plan which reportedly sets goals for the agricultural, industrial, and services sectors of the economy and outlines in some detail investment projects the government should undertake.⁽³⁾ The drafting of such a plan, which is now being circulated among the various government ministries, is a major accomplishment given the short completion time, data problems, and the shortage of trained personnel. Even though the plan is not yet available for evaluation, US officials report that its very existence has focused attention and debate on the setting of national priorities.

14. In addition to long-range planning the MNPDP has also assumed the primary responsibility for requesting, approving, and servicing foreign aid programs. Before the MNPDP's establishment, aid donors had no notion of what projects the Vietnamese would like to see undertaken, what the priorities were between and within sectors of the economy, or which government agency should be dealt with. One of the first actions of the ministry was to draw up a list of 38 projects ranked in order of priority and to distribute it to potential donors. Since August 1971 ministry officials have met nine times with major donors to discuss aid requirements and how aid could be used most effectively. This process became even more

3. Private sector investment plans are to be left to the determination of market forces.

important as grants and loans from international institutions and countries other than the United States more than doubled during 1970-71.⁽⁴⁾

15. In addition to planning and foreign aid coordination, the MNPDP has several other functions. The Minister of Planning, Le Tuan Anh, heads an interministerial committee dealing with the disposition of US military surplus property. The direction of the 16 government-owned industrial firms also resides in the MNPDP by virtue of the fact that Minister Anh retains his previous position as head of the Central Management Agency. Surplus property and the public corporations are major government assets, and thus integration of their management with overall government planning should allow for better coordination in resource allocation. Finally, the MNPDP supervises the National Institute of Statistics, the largest unit within the ministry, providing a logical link between data collection and planning.

16. Despite its planning accomplishments to date, the effectiveness of the MNPDP in the allocation of resources has yet to be demonstrated. Although the various ministries concerned with the four-year plan have been meeting regularly to coordinate their goals, the MNPDP may have little real authority when it comes down to making budgetary allocations. A solution might be to combine the planning and budgeting functions so that budgeting can be related to development efforts and planning can be strengthened by some control over funding. The government has been considering a transfer of the budget function from the Office of the Presidency to the MNPDP, but other ministries undoubtedly will resist a move that would give the MNPDP authority over them.

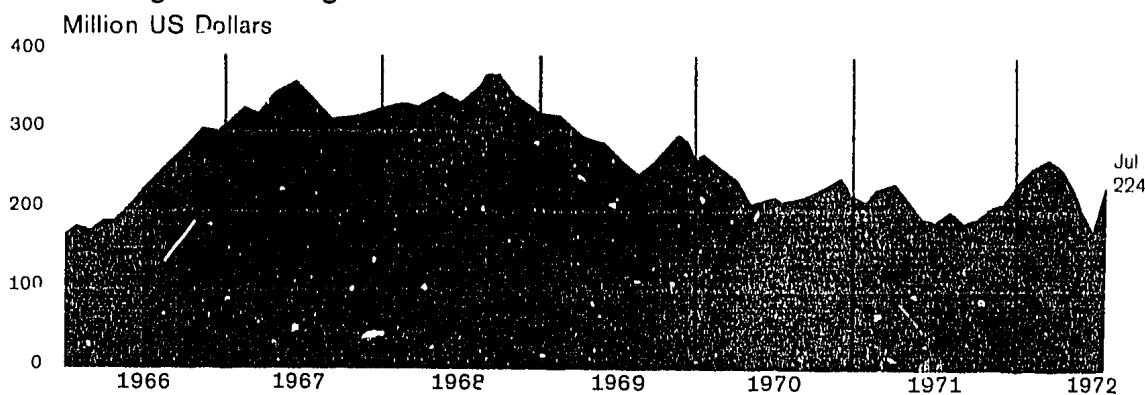
4. Grant and loan commitments and expenditures from non-US sources totaled an estimated \$78 million in 1971.

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SOUTH VIETNAM

Figure 1

Foreign Exchange Reserves*



*Excluding holdings of commercial banks

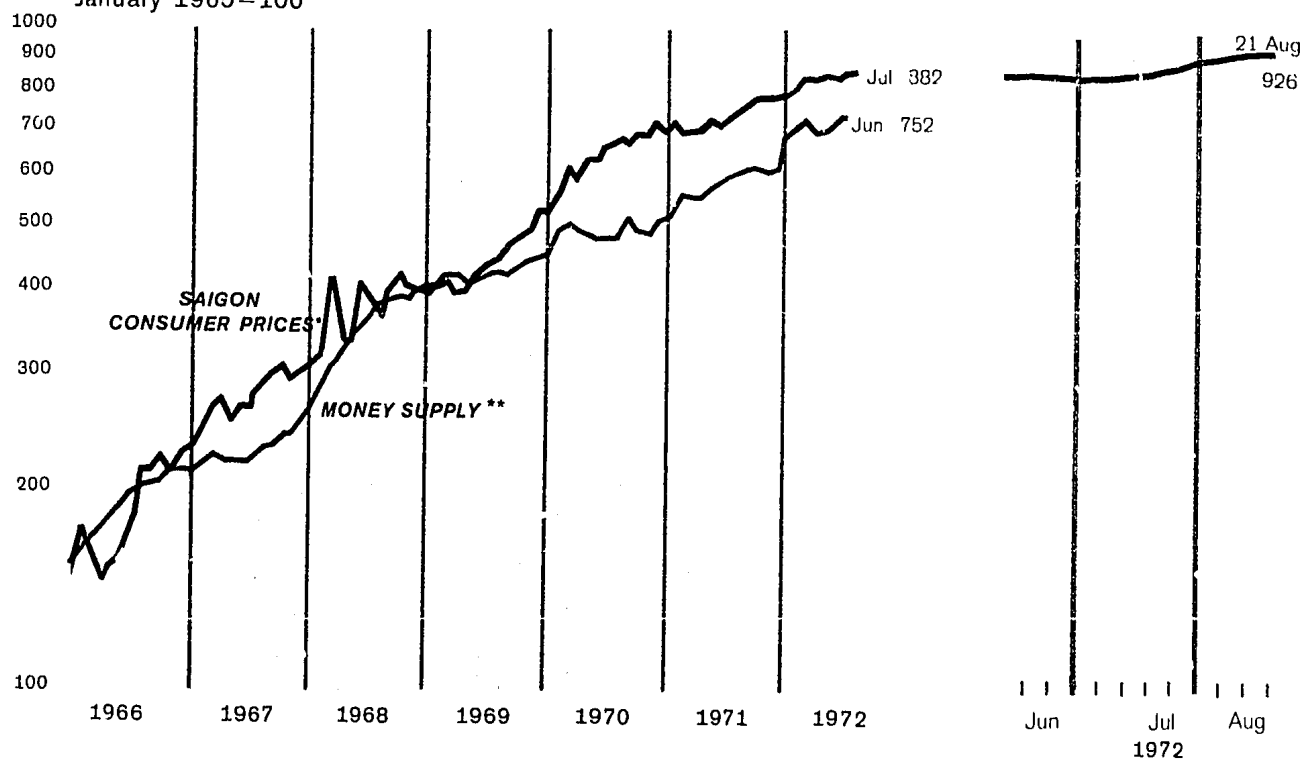
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Figure 2

Indexes of Money Supply and Saigon Consumer Prices

January 1965=100



*USAID monthly average retail price index for Saigon

**Data are for end of month

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SAIGON

Free Market Currency Prices

Piasters Per US Dollar

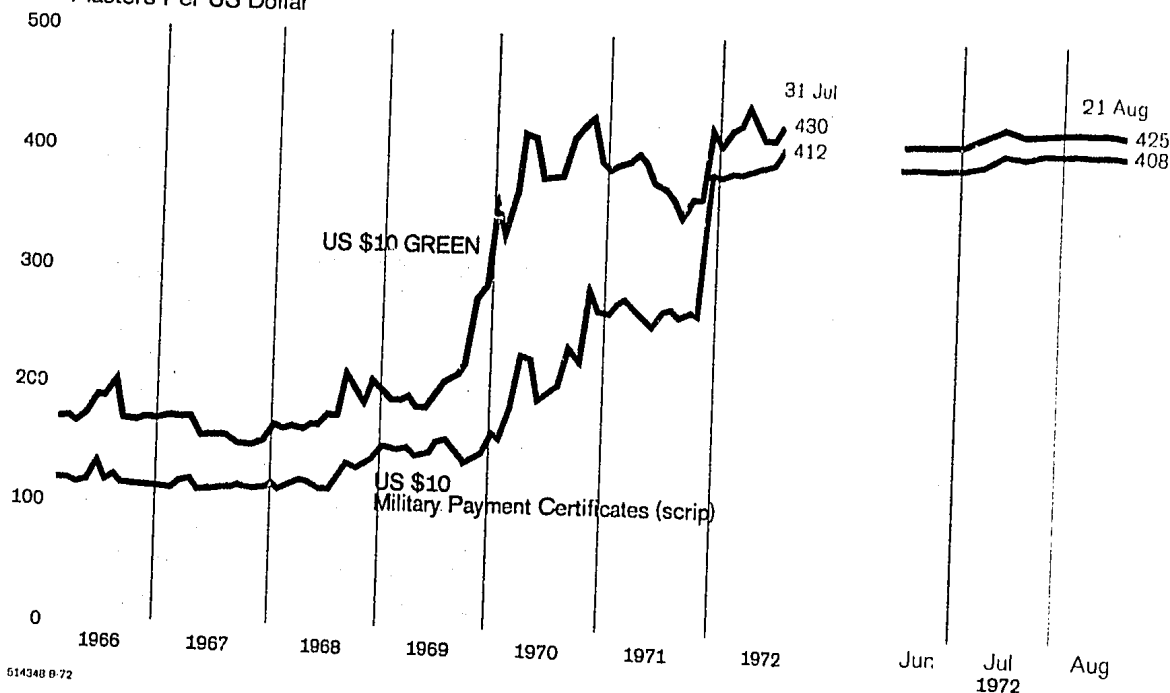


Figure 3

SAIGON

Free Market Gold Prices

Thousand Piasters Per Troy Ounce Gold Leaf

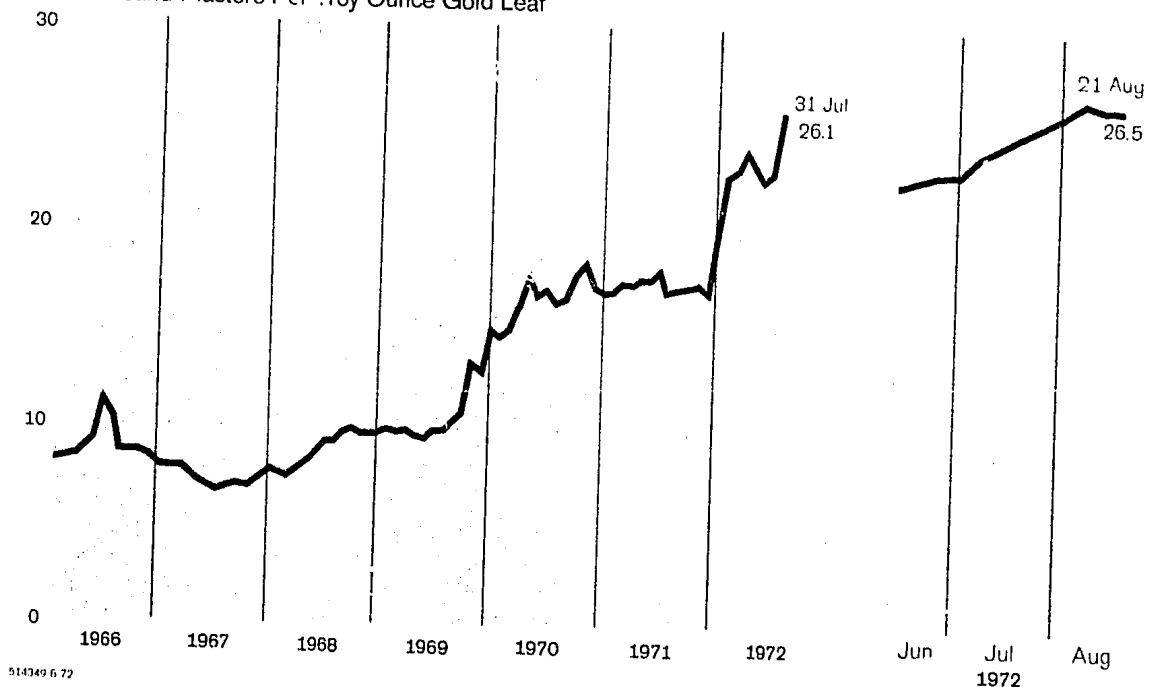


Figure 4

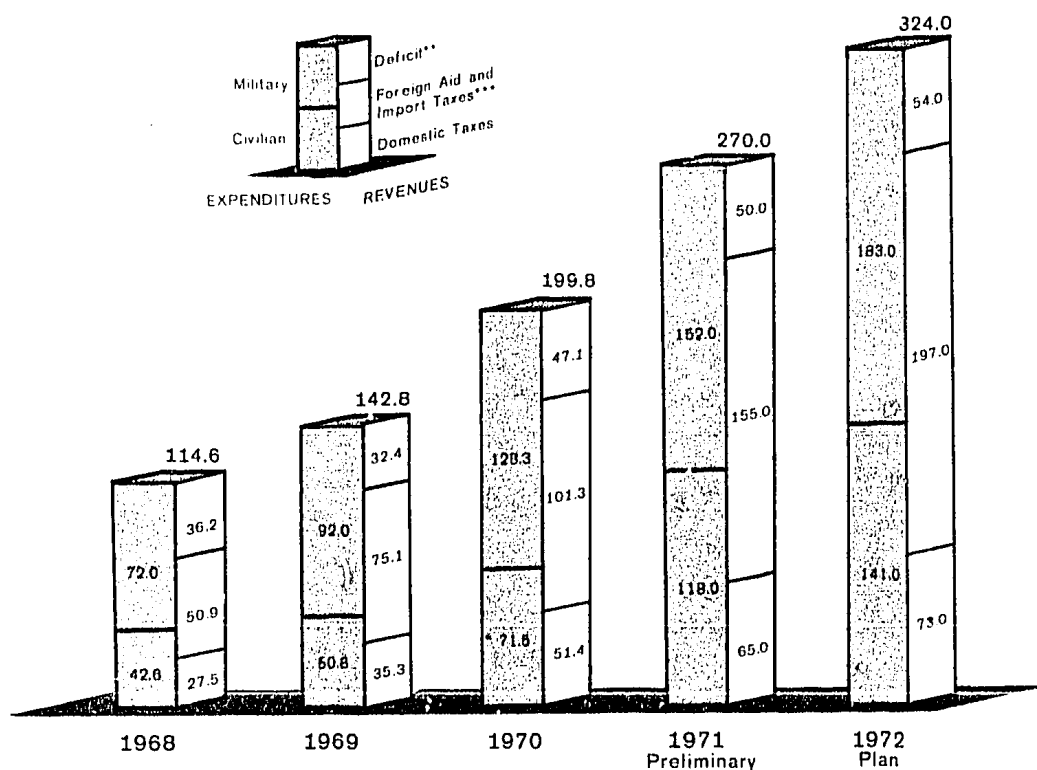
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SOUTH VIETNAM

Government Budget*

Billion Piasters

Figure 5



*Data include extrabudgetary revenues and expenditures.

**Residual. Financed primarily by borrowing from the National Bank.

***Includes customs duties and other import taxes, counterpart funds generated by US-financed import programs, and profits from foreign exchange transactions. A major result of the November 1971 reforms was to make explicit a greater share of US aid to the budget that earlier took the form of high customs duties on aid-financed imports.

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